

Congresswoman Virginia Foxx  
Statement for the Record

10/6/08

Oversight and Government Reform Hearing: "The Causes and Effects of the Lehman Brothers  
Bankruptcy"

The past year has yielded events of monumental proportions for our economy. The federal government's response will certainly be of consequence to all future generations of this country. In particular, in the past two weeks, Congress authorized spending a previously unthinkable amount of citizen resources on a scheme aimed at restoring confidence in our nation's credit markets by buying up toxic assets currently held by various Wall Street mega banks. This comes on the heels of the government already having undertaken multiple, futile, expensive, and questionable attempts to stave off this crisis by bailing out a variety of financial institutions, starting with Bear Stearns. Despite the overwhelming angst expressed by constituents about this approach and outcries from economists and financial experts from across the political spectrum and across the nation, the Administration, led by Treasury Secretary Henry Paulson, now has the authority to risk virtually unlimited resources in an attempt to forestall what we are told is an impending and unavoidable economic calamity.

Recognizing that it was a failure of adhering to good government principles that got us involved in this mess in the first place, I voted against this hastily considered proposal because, if there is an impending crisis, it is our responsibility as stewards of the public trust to "do no harm." Indeed, responding to a crisis of this magnitude by doing more of what has failed, is more likely to aggravate the underlying problems than to fix them.

We must recognize that our nation's economic problems were not a failure of capitalism. Most of those who created the risk for themselves and others would have been adequately punished for their poor management had it not been for this bailout. Rather, the spark that ignited this fire was a result of imprudent government meddling. By creating and propping up government-sponsored enterprises (GSEs) such as Fannie Mae and Freddie Mac and encouraging practices that would not have been tolerated in the marketplace, sans pressure by their agents and even members of Congress, the government created a false sense of security amongst investors, who were given incentives to sell mortgages and loans to low-income borrowers who otherwise would not have access to mountains of credit. With a lack of accountability and transparency, financial managers built a house of cards which served as the foundation for this current crisis.

In looking back at what Congress could have done, I discovered a number of amendments in the House that were voted on in recent years that could have directly confronted the disaster brewing at the GSEs. In 2005, for example, under a Republican majority, I voted for an amendment to "authorize the regulator to require one or both of the GSEs to dispose or acquire assets or liabilities if the regulator deems those assets or liabilities to be a potential systemic risk to the housing or capital markets, or the financial system", but that amendment was voted down by an overwhelming bipartisan majority. (It should be noted, however, that of the 73 votes for this amendment, all but three were cast by Republicans.)

During consideration of an amendment to “give the newly created regulator (FHFA) greater authority to impose capital strictures on GSEs”, the current Chairman of the House Financial Services Committee made comments that, in light of what we now know, are chilling to the bone. Speaking in opposition to attempts to impose what he saw as undue regulatory burdens on Fannie and Freddie, Chairman Barney Frank stated:

“...let me say right now, if you are listening, if you are buying Fannie or Freddie's paper because you think I am going to vote to bail you out, sell it, and cash it in, I am not going to do that. I do not think there is a Federal guarantee. I certainly, as a great supporter of their housing role, do not plan to do that.”

“I would also say that with all of the misdeeds of Fannie and Freddie, their safety and soundness has not been called into question. Yes, there were accounting misdeeds, and people got money who should not have gotten it, and some are being penalized as they should be, but safety and soundness has not been called into question, and this legislation further enhances what the regulator does.”

Only time will tell what effect last week's bailout will have on our economy and it is my sincere hope that it ultimately brings about stability. It is now our job to do whatever possible to identify the problems that brought us here and work to prevent such vulnerabilities in the future. This must be done by restoring the public trust not only in private financial firms, but also the government whose policies allowed these problems to materialize.

A handwritten signature in cursive script, reading "Virginia J. Fox". The signature is written in dark ink on a white background.